

Fitness business analysis



**ASSIGN
BUSTER**

INTRODUCTION

The aim of the report is to analyse the position of Fitness Express, a business consisting fourteen fitness clubs and recommend Steve Taylor and Dave Courteen on how they can improve the business over the next five years. To achieve this, an analysis of both the external and internal environment of the business will be considered. A study of the external environment will be done with the help of the Porter's five forces analysis followed by a life cycle study leading to a PESTEL analysis. This will be followed by a SWOT analysis to study the internal environment of the business. Thus by analyzing the external influences and the strengths and weaknesses of the business, a conclusion will be drawn on the development options of the business.

NATURE OF THE BUSINESS

Position to date:

Fitness Express was founded by Dave Courteen and Steve Taylor in 1987. The business constituted 14 fitness clubs as of January 2000. By then over 190 staff were employed. The partnership of Dave and Steve had matured into a highly professional business in the last 13 years providing first class systems for the customers.

Mission:

The mission of Fitness Express was to bring excellence, a passion for health & fitness , and professionalism to the fitness industry. A fitness club is where the customers come to feel good, have fun and keep fit at the same time. Fitness Express ran on this philosophy.

Short Term Objective:

The business was projected to turnover in excess of £2million that year.

Long Term Objective:

They intended to develop a winning service formula and to create first class systems and routines to bear their offering.

Key personnel:

The business was run by Dave Courteen and his partner Steve Taylor. They had employed over 190 staff.

STRATEGY

Fitness Express was born in June 1987. From the beginning it was evident that the skills of the partners complemented each other. Dave was the negotiator and Steve was the man-manager. Dave enjoyed building the business; Steve was good at the operational side.

Staff were hired on the basis of their personality rather than on their fitness. Dave and Steve paid great attention to the personal development and training their staff.

The policy of Fitness Express was “ EXCELLENT CUSTOMER SERVICE”, which required friendly and approachable staff. Gym users were frequently spoken to. In order to maintain a friendly environment they greeted their customers by their first names.

The partners also realized that there was enthusiasm amongst the under-represented part of the population who were over 40's and 50's " de-conditioned" segment. This saw them place an emphasis on developing the club as a place to come and socialise.

Four years into the business, Dave and Steve realized that they should expand their business. As they had no funds to build new health centres in different venues, they began to offer consulting services to independent hoteliers like Best Western Hotels. They also had an opportunity to work with Thomas Cook on their £4million staff leisure facility which secured them the contract to run Legal and General's facility in Tadworth, Surrey.

DEVELOPMENT OPTIONS

1. Deal with Swallow:

The Swallow Hotel Group approached Fitness Express to merge in a joint venture. In that case 50% of the shares would be acquired by Swallow. All the leisure centres would be run by Fitness Express. The hotel will continue to employ their own staff. They will be supported by a Fitness Express Team.

2. To expand through acquisition:

Following 12 successful years, Fitness Express was cash rich with over £300,000 sitting in the bank to use in acquisitions. So another option was to expand through acquisition. There was existing a similar contract management company as Fitness Express but far less profitable per club. Integrating them into Fitness Express and expand their business seemed to an alternative.

3. Organic growth:

Organic growth can also be considered as an option. Fitness Express was running a tight ship and there was limited room to increase the earnings potential within the existing clubs. They already ran added-value revenue generating services, such as a holiday club, but perhaps more could be done with the existing hotels such as running weekend fitness breaks.

IDENTIFYING SOURCES OF COMPETITION

1. THREAT OF NEW ENTRANTS

Threat of new entrant might not be a matter of huge concern as there are high barriers to entry in this industry. Highly developed equipments and expert staff requirement make it difficult for fitness centres to enter in the market.

2. BARGAINING POWER OF BUYERS

With the membership levels rising steadily and the market getting oversaturated the buyer powers were high.

3. BARGAINING POWERS OF SUPPLIERS

It was important to invest with hotels of the right hotels. But the number of quality hotels being less the bargaining powers of suppliers was high.

4. THREAT OF SUBSTITUTES

The threat from the substitutes was not very high as there were few companies in the UK of the same stature as of Fitness Express. One of these was a similar contract management company with thirty contracts, but their profit margins were comparatively low compared to Fitness Express.

5. COMPETITIVE ENVIRONMENT

With the merger activities going on the competition were on the high.

LivingWell, the health clubs operated by Stakis, the hotel and casino group, had overtaken David Llyod Leisure. Cannons and First Leisure also came close to merging their health and fitness business.

LIFE CYCLE OF THE BUSINESS

Development Stage

Users/buyers:

Dave and Steve started their business as they took over the total control of the gym of the Barnham Broom hotel in Norwich. The business depended on the membership fees and the customers were those who were the members of the hotel leisure club.

Competitors:

Competitors were very few.

Growth Stage

Users/buyers:

A monthly guest appearance on local Radio Broadlands 'fitness phone-in' programme for 30 minutes seemed to be effective. Answering listeners, questions on fitness, e. g. how to work off excess fat gained over Christmas, gave FE wide coverage in the local area.

Competitors:

At this stage they were entry of the competitors. There was a high competition to niche the market position.

Shakeout Stage

Users/buyers:

A swimming pool was added to the hotel site. The facilities attracted more people. Thus there was increase in the number of customers. Fitness Express effected a change in the payment structure.

Competitors:

Very high competition led to develop the business in other venues.

Maturity Stage

Users/buyers:

They began to offer consulting services to independent hoteliers like Best Western Hotels. They also had an opportunity to work with Thomas Cook on their £4million staff -leisure facility. Thus their business continued to develop at other venues.

Competitors:

Three new contracts were established in 1993. One of them was located only five miles away from their base at Barnham Broom. So the competition was high and there was a threat of losing customers.

Decline Stage

Users/buyers:

With the days going through the contract expiry dates were around the corner. Thus it was evident that there could be a decline soon.

Competitors:

The issue of the contract was solved by ensuring that one would serve the family and children while the other would serve only the older group people. Thus the competition was reduced

ENVIRONMENTAL FACTORS AFFECTING THE COMPANY'S MARKET POSITION

1. POLITICAL:

Political issues include government policies or legislation. For a fitness organization, there is very little to be concerned about trade restrictions and tax.

2. ECONOMIC:

Economic issues are a key factor for a fitness company. Fitness companies are leisure service providers. There might be a decrease in number of customers when there is an economic decline. People will not spend money on leisure activities when they have less disposable income.

3. SOCIOCULTURAL:

Population demographics are an important factor which influences a fitness company. This includes age, sex and income of people. There is high demand from both young and old people for fitness and physical

development. Fitness is also independent of sex. As discussed in the economic issues, fitness companies provide leisure facilities the economic condition of people is a matter of concern. Fitness Express was based on urban centre in East Anglia. This was strength of the business.

4. TECHNOLOGICAL:

While technological issues might favour the company in terms of providing high barriers to entry for new entrants, it might be a matter of concern for the high demand and expectation from customers. Highly developed equipments and expert staff requirement make it difficult for fitness centres to enter in the market. At the same time in order to compete with the existing competitors, a fitness company should be aware of the technological developments and provide the latest equipments to its customers.

5. ENVIRONMENTAL:

Environmental factors could come in way of a fitness company. Energy consumption is high as the equipments run on electricity. Hence the environmental protection laws can come in the way.

6. LEGAL:

Being a fitness company, legal issues come into play in health and safety matters. Rules and regulations should be strict regarding quality of equipments used. All the staff should be well qualified and trained. This in turn will have an impact on the staff costs.

SWOT ANALYSIS

Strength

Weakness

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|---|--|
| <ul style="list-style-type: none"> • Experience of Dave and Steve • Both Dave and Steve were highly respected within their industry • Excellent Customer Service provided by Fitness Express | <ul style="list-style-type: none"> • Small business of 14 clubs • Despite the number of staff they employed, Dave and Steve were still very hands-on • Increase in staff cost • High buyer power • High |
|---|--|

- Staff
recruitment
policy
- Wide coverage in the local area through media
supplier power

Opportunities Threat

- | | |
|--|---|
| <ul style="list-style-type: none"> • Growing the business in other venues • Deal with Swallow • Including acquisition • Organic growth | <ul style="list-style-type: none"> • Expiry of contracts with customers • Customer loyalty and insufficient facilities • Competiti |
|--|---|

on

- Loss of
niche
market
power

STRENGTH

- Steve worked with a large sports retailing outlet in York as a student, where he gained valuable experience in managing the operations of a large facility. Dave did his summer job in Lowesoft. He was involved in designing a mobile gym and providing fitness assessment for holidaymakers during his summer job. These experiences paid off when they started their own business. Steve involved himself in the operational side of the business. Dave looked upon developing the business.
- Their strength was the respect they enjoyed within the industry. Dave was also appointed as Chairman of the Fitness Industry Association (FIA). The goodwill in the market certainly attracts customers towards a business.
- The policy of Fitness Express was “ EXCELLENT CUSTOMER SERVICE”, which requires friendly and approachable staff. Gym users were frequently spoken to. In order to maintain a friendly environment they greeted their customers by their first names.
- The quality of the staff, and their ability to communicate with the guests would be the most important factor whether or not a guest would return the following year. Staffs were more likely hired on the

basis of their personality than on their fitness, and any future business run by Steve would pay great attention to the personal development and training their staff.

- Word of mouth and the local PR that they encouraged generated membership for their club. A monthly guest appearance on local Radio Broadlands ‘fitness phone-in’ programme for 30 minutes seemed to be effective. Answering listeners, questions on fitness, e. g. how to work off excess fat gained over Christmas, gave FE wide coverage in the local area.

WEAKNESS

- Building the small empire of 14 clubs had taken Dave and Steve over 12 years. Their competitors had a more widespread business.
- Despite having employed over 190 staffs, Dave and Steve were both still very hands-on. Managing at both the tactical and the strategic level was physically exhausting and they knew that it was unsustainable in the long run.
- Since the industry demands well qualified and trained staff. This will have an impact on the staff costs.
- With the membership levels rising steadily and the market getting oversaturated the buyer powers were high.
- As the number of quality hotels to deal with was few, the bargaining powers of suppliers were high.

OPPURTINITIES

- Four years into the business, Dave and Steve realized that they should expand their business. As they had no funds to build new health centres in different venues, they began to offer consulting services to

independent hoteliers like Best Western Hotels. They also had an opportunity to work with Thomas Cook on their £4million staff leisure facility which secured them the contract to run Legal and General's facility in Tadworth, Surrey.

- A deal with Swallow, a major UK hotel chain meant that 50% of the shares of FE would be purchased by them. All the chain's leisure facilities would be managed by Fitness Express on a 'joint venture' basis, with the hotels continuing to employ their own staff, but supported by a dedicated Fitness Express team. This came as a big opportunity and everyone was excited.
- Following 12 successful years, Fitness Express was cash rich with over £300, 000 sitting in the bank to use in acquisitions. There was existing a similar contract management company as Fitness Express but far less profitable per club. Integrating them into Fitness Express, with all the personnel and cultural issues that would emerge, would be even more difficult, especially given the geographic spread of the contracts they would be buying.
- Organic growth can also be considered as an option. Fitness Express was running a tight ship and there was limited room to increase the earnings potential within the existing clubs. They already ran added-value revenue generating services, such as a holiday club, but perhaps more could be done with the existing hotels such as running weekend fitness breaks.

THREAT

- One of their customers was the Hotel Norwich who served notice to leave, with their contract of two years expiring over the following three

months. Applying this to their other contracts, Dave and Steve realized that within two years the basis of their entire business could collapse. So they went back to all their sites and renegotiated their contracts. Most customers eventually agreed to a three-year contract with a six-month notice either way. This was a mere temporary solution. But it was to be kept on mind that expiry of contracts is a continuous threat for Fitness Express.

- A ‘disaster’ hotel was taken on. The management of the hotel was not committed to the customer service and facilities were not up to the mark to generate sufficient turnover (e. g. there was no car park), so quickly the two partners realized that this could never be made to work satisfactorily. Luckily the contract being an incorrectly-worded one, they found a way to get out of the agreement after one year. Though they incurred a loss of £30k but overall disaster was avoided. So it was important to grow with the right hotels. But were there sufficient hotels of the right quality out there?
- With the merger activities going on the competition were on the high. LivingWell, the health clubs operated by Stakis, the hotel and casino group, had overtaken David Llyod Leisure. Cannons and First Leisure also came close to merging their health and fitness business.
- Three new contracts were established in 1993. One of them was located only five miles away from their base at Barnham Broom. This came as a potential threat. The high competition in the market can also affect loss of the market power that the company secured over the past years.

RECOMMENDATIONS AND CONCLUSION

As the options of further growth of the Fitness Express seemed to be three-fold, with the analysis of the macro and the microenvironments it can be concluded that expanding Fitness Express through acquisition would be a good option. Though the deal with Swallow is attractive financially, but to sell the company and let the business become another highly professional fitness chain does not seem to be the best measure. Again they were running in a tight ship and there was limited room to increase the earnings potential within the existing clubs. The only way to grow significantly was to increase the number of clubs. Dave and Steve were highly respected in the industry. They were very experienced. Fitness express provided excellent customer service. With these strengths, the company should focus on acquiring another management company and work on the improvements of the existing infrastructure to make it pay.